

TOWN OF CONCRETE
Skagit County, Washington
January 1, 1993 Through December 31, 1994

Schedule Of Findings

1. The Town Should Properly Record Expenditures

In conjunction with our review of sewer expenses, we identified a significant increase in payroll and payroll related expenditures during 1994. The increase was attributable to increased payroll expenses to the Sewer Fund for employees funded from more than one fund. However, there was no significant change in job duties or rate of pay for these employees to warrant a change. Documentation was not prepared to support the payroll allocation to the Sewer, Water and Street Funds in either 1993 or 1994.

Our review also noted the purchase of a lawnmower in 1994 for \$15,429.70 for which the Arterial Street Fund paid \$10,285.70 and the Current Expense, Street, Water, and Sewer Funds paid \$1,286 each. Town staff indicated the largest use of the lawnmower is for city parks which is a Current Expense function. As indicated in Note 1. E. 3 to the Financial Statements, the town intended the expenditure from the Arterial Street Fund to be an interfund loan to the Street, Water, and Sewer funds. The purchase of the lawnmower is recorded as a capital expenditure in the Arterial Street Fund. Our review concluded the expenditure and the interfund loan received should have been reflected in the Current Expense, Street, Water, and Sewer Funds based on a reasonable allocation of the lawnmower's benefit to each fund. Further, we concluded the interfund loan should have been recorded as a nonexpenditure in the Arterial Street Fund.

In addition, our review noted expenditures coded to the correct fund but allocated to categories which did not necessarily agree with the type of expenditure made.

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class. The system shall exhibit true accounts and detailed statements of funds collected, received and expended

RCW 43.09.210 states:

Separate accounts shall be kept for every appropriation or fund of a taxing or legislative body . . . All service rendered by, or property transferred from, one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value to the department, public improvement, undertaking, institution, or public service industry receiving the same, and no department, public improvement, undertaking, institution, or public service industry shall benefit in any financial manner whatever by an

appropriation or fund made for the support of another.

The *Budgeting, Accounting and Reporting System (BARS)* manual Pt. 1, Ch. 1, page 1, No. 2 states:

Revenues will be classified according to sources and expenditures will be classified by type of services using the prescribed chart of accounts. The prescribed chart of accounts must be used for detail reporting of revenues and expenditures/expenses. If a different system of numbers is used for internal accounting, it must contain equivalent detail throughout the budgeting, accounting, and reporting processes.

According to town officials, decisions for coding and allocating expenditures to funds and categories were made based on available cash and budget capacity of the funds involved. In the case of payroll expenses in the Sewer Fund, town officials have represented the 1994 expenses more accurately reflect actual expenses to run the sewer utility than what had been reported in prior years. Prior years' payroll expenditures which were appropriately attributed to the Sewer Fund were paid by other funds including the Water and Street Funds.

As a result of inadequate documentation of allocation of payroll expenses to the Water, Sewer, and Street Funds, a material weakness exists. As the result of inaccurate allocation and coding, the financial statements may not accurately reflect actual costs required to operate the individual funds. Inaccurate financial information increases the risk that poor decisions will be made regarding setting of rates and fees. Further, funds which had expenditures allocated to and paid for by other funds benefited at the expense of the payor funds.

We recommend the following:

- a. The town should classify expenditures based on the actual purpose of the expenditure.
- b. Where an expenditure supports the purpose of more than one fund, establish a logical method (for instance time sheets) to allocate the cost to reflect the benefit received by each fund.
- c. The town council should ensure cash is available in the appropriate fund prior to authorizing payment of expenditures. Where cash is not available in the appropriate fund to cover the expenditure, the town council should approve an interfund loan by resolution and adjust revenues as needed through rate adjustments to repay the loan.
- d. The town council should authorize the clerk-treasurer to make line item budget adjustments as long as the adjustments do not exceed the adopted fund and department level budgets or change the salary of an employee.
- e. The town council should approve a budget amendment if expenditures will exceed the department or fund level budget prior to authorizing payment of the expenditure.

2. The Town Of Concrete Should Deposits Receipts Daily

On July 28, 1995, a surprise cash count was performed at the Town of Concrete. As a result of this review, it was determined that the town had \$18,792.34 in cash and checks on the premises in excess of authorized petty cash and change funds. This amount does not include moneys received through the night deposit or from mail received during the cash count. The majority of this amount, \$13,881.36, represented court receipts from throughout the month of July 1995. These receipts were kept in piles on the court clerk's desk and not secured. Another significant portion of this amount, \$2,193.00, was represented by a court transmittal check for June 1995, which was not deposited in the town's bank account at the request of the court clerk.

In addition, it was noted that deposits throughout the audit period generally occurred on an infrequent basis.

Article XI, Section 15, Deposit of Public Funds, states:

All moneys, assessment and taxes belonging to or collected for the use of any county, city, town or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer, or other legal depositary to the credit of such city, town, or other corporation respectively, for the benefit of the funds to which they belong.

RCW 43.09.240 states in part:

. . . Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four hours. The treasurer may in his or her discretion grant an exception where such daily transfers would not be administratively practical or feasible.

During July 1995, the Town of Concrete's Municipal Court switched from a manual receipting system to a commonly used statewide system, DISCIS. At the direction of DISCIS staff, the town did not deposit receipts until the transactions were processed through the DISCIS receipting system. However, this process was very time consuming as the original citations had to be entered into the system prior to receipting payment on the citation. The processing timeline is expected to improve significantly as the town catches up with initial data entry requirements. Another factor preventing processing of the receipts on the DISCIS system was the need to finalize reconciliation of the manual system prior to initializing the DISCIS system.

Just prior to the cash count, the town had asked about the time requirement for making deposits. They were informed daily deposits are required. The town's staff indicate they experience difficulty in getting to the bank due to staff size.

As a result of slow depositing procedures, the town has increased risk of theft, loss and abuse of public funds. The town has also lost potential interest income.

At the time of the cash count, a recommendation was made to deposit the funds on hand as soon as possible. Through extra hours worked on the weekend, the staff was able to make deposits of above noted funds on Monday, July 31, 1995.

We recommend the town institute daily deposit procedures. If difficulty is encountered

in reaching the bank during normal banking hours, a locked bag in the night deposit should be considered. Funds kept at town hall overnight should be adequately protected in a fireproof safe. We further recommend the court receipts be deposited daily regardless of their status of processing in the DISCIS system. A manual reconciliation for these receipts to the DISCIS bank reconciliation should be performed.

3. Delinquent Accounts Should Be Handled In A Consistent And Timely Manner

Our review of billing and receipting of utility accounts during 1993 and 1994 revealed inconsistent implementation of procedures for handling delinquent accounts. Specifically, we identified three accounts for two council members which should have received shut-off warnings and had the water shut off but did not.

In one instance, a council member continued to receive services through mid-July 1994 on one of two accounts despite the lack of payment on billings as old as October 1993. In this instance, the account was not identified as delinquent by the utility clerk due to an error in setting a computer code. The utility clerk identified this problem in June 1994 and changed procedures to prevent this error from reoccurring. Beyond June 1994, the account was not shut off due to the need to tear up the street/sidewalk in order to shut off service.

For the same council member's second account, a shut-off notice was issued on June 23, 1994, giving five working days to pay. Payment was received six days after the water service was supposed to be shut off.

For both of the above noted accounts and the account of an additional council member (who is no longer holding office), water service should have been shut off in October 1994 due to lack of payment. The utility clerk did not send shut-off warnings to any utility customers in October. A shut-off warning was sent November 1, 1994, which provided five working days to pay. However, no services shut-off for any accounts were initiated until December 1994. Both council members signed delinquent utility account agreements dated November 18, 1994, and November 23, 1994, providing for a delay in payment on their accounts until December 30, 1994, and November 30, 1994, respectively. The November 18, 1994, agreement was complied with. The November 23, 1994, agreement was not.

At the time of our audit in August 1995, it was noted all three accounts were again delinquent. Shut-off warnings were issued and the delinquent portion of the accounts were paid the same day.

Delinquent account procedures were not implemented due to clerical errors and delays.

Prior to December 28, 1994, the Town of Concrete had established informal collection procedures. As of December 28, 1994, the town adopted Ordinance No. 382 formalizing billing and collection procedures.

RCW 35.21.300 states in part:

The lien for charges for service by a city waterworks, or electric light or power plant may be enforced only by cutting off the service until the delinquent and unpaid charges are paid

Article VIII Section 7 of the *Constitution of the State of Washington* states:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm

The lack of follow up of delinquent accounts increases the risk of bad debt and the risk that errors, misfeasance or malfeasance could occur and not be detected in a timely manner, if at all.

We recommend procedures for collecting delinquent accounts be implemented in a consistent and timely manner. We further recommend the town evaluate the effectiveness of their current collection policies in light of the difficulty in performing water shut-off for selected accounts.

4. The Town Should Implement Improved Internal Controls Over Utility Receipts And Billing Adjustments

Our review of the utility billing and receipting system in the fiscal years 1991 and 1992 audit identified weaknesses in the internal control system. Our subsequent review determined the following weaknesses have not yet been resolved.

- a. Receipting and posting of receipts to the utility system are performed by the same person. A separate employee reconciles receipts to a utility report. However, this report is printed prior to final posting and can be altered.
- b. The same employee who is responsible for receipting is responsible for initiating and posting billing adjustments. No separate review of adjustments is made.
- c. The check and cash composition of utility receipts are not consistently recorded and reconciled to the deposit.

The town's staff has indicated utility processing has taken a lower priority due to heavy workload.

These weaknesses increase the risk of errors or irregularities occurring without being detected in a timely manner, if at all.

We recommend the town institute improved controls over utility billing and receipting. The computer system used by the town has a control account history report which identifies all transactions at a total level. Periodic reconciliation by an independent person of cash deposited to receipts posted according to the history report and review of billing adjustments reflected in the history report would provide an effective improvement in control.

5. The Town Should Set Compensation Prior To Commencing Work On A Contract

On April 29, 1994, two airport tenants entered into an agreement with the Town of Concrete to volunteer equipment and labor for work performed on the Town of Concrete's Municipal Airport. The agreement did not include compensation for the work performed. In May of 1994, the town's council reduced the three annual lease billings dated April 22, 1994, for these airport tenants from \$273.97 each to \$1 each to show its appreciation.

The agreement between the Town of Concrete (the First Party) and contractor (the Second Party) states:

WHEREAS, Second Party has volunteered to furnish certain equipment consisting of a scraper, an excavator and operators for said pieces of equipment without cost to First Party . . . Second Party affirms that Second Party's furnishing of equipment and labor and the cost of moving aid equipment shall be at the complete expense of Second Party.

Article VIII, Section 7 of the *Constitution of the State of Washington* states:

No county, city, town or other municipal corporation shall hereafter give an money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm

As a result of this action, the town gifted public property (accounts receivable) in the amount of \$820.

We recommend the town refrain from further gifts of public funds. We further recommend the town consider whether compensation will be made to persons working on the airport property. If so, the compensation should be included in a written agreement made prior to commencing work.

6. The Town Should Prepare Written Agreements And Limit Payment To Authorized Work

In July 1994, a citizen approached the Concrete town council regarding the need for 140 feet of pipe. The council determined they did not have the money to purchase this pipe (estimated at \$1,200 plus tax and shipping). The town council agreed to reimburse the citizen in the next budget year, waive sewer or water hook-up fees, or barter services. No formal written agreement was prepared.

In December 1994, the citizen presented the town council with a cost summary totaling \$4,378.98. This bill included the purchase of the pipe discussed in July 1994 as well as sand and a \$3.48 per foot charge for equipment and labor to install it, totaling \$1,534.41 plus tax. Additionally, the bill included \$187.86 plus tax for purchase and installation of a two-inch valve for the sewer pump plant at the request of town staff. The remainder of the bill represented purchase and installation of an eight-inch water main on Park Street totaling \$2,348.93 plus tax. The town council approved payment despite sand, equipment, labor, and the Park Street line not being included in the originally discussed agreement as reflected in the town council's minutes.

In exchange for the claimed costs of \$4,378.98, the town council granted four water hook-ups at the rate of \$500.00 each, and the option for two water or sewer hook-ups at the rate of \$1,000.00 each and a credit of \$378.98 toward a third water or sewer hook-up. The four water hook-ups will connect to the water line built but have not yet been hooked up. The cost to hook them up without the agreement would be \$1,000.00 according to Ordinance Nos. 380 and 381 adopted December 28, 1994.

The council authorized payment for the costs claimed as they believed the price for the water lines to be very reasonable. The council authorized the first four water hookups at the rate of \$500 each because the work on these lines had been going on when the rate was at \$500.

As a result of these actions, the town paid \$3,064.73 for unauthorized costs to this citizen. This could be construed as a gift of public funds.

Article VIII, Section 7 of the *Constitution of the State of Washington* states:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm

We recommend the town use formal written contracts detailing work to be performed and compensation. We further recommend the town refrain from paying for unauthorized work.

7. The Individual Council Members Of The Town Of Concrete Should Repay The Amounts They Were Inappropriately Compensated

In 1990, the Town of Concrete adopted Ordinance No. 328 which states the mayor and each council member will be paid \$20 per month. At that time the council was meeting only once a month. Beginning in January 1992, the council began meeting twice a month. At that time, the town began to pay the council members \$20 per meeting.

RCW 35A.12.070 states:

The salaries of the mayor and the councilmen shall be fixed by ordinance and may be revised from time to time by ordinance, but any increase in the compensation attaching to an office shall not be applicable to the term being served by the incumbent if such incumbent is a member of the city legislative body fixing his own compensation
. . . .

In January 1990, the town council of the Town of Concrete adopted Ordinance No. 328 which ordained:

The salary of the Mayor and each Councilman of the Town of Concrete shall be \$20 per month commencing with the month of January 1990
. . . .

During 1992 and 1993, the council members were inappropriately paid \$20 per meeting, resulting in a combined overpayment of \$1,920.

The overpayment is a result of an error made by the council members and administrative staff, who erroneously believed that Ordinance No. 328 read that council members were to be paid \$20 per meeting.

This problem was brought to the town's attention in our 1991-92 audit, Report No. 55791. The council members have not repaid their portion of the overpayment. However, during 1994 the council members did receive the correct compensation.

We again recommend the council members of the Town of Concrete repay the \$1,920 of unauthorized compensation.

TOWN OF CONCRETE
Skagit County, Washington
January 1, 1993 Through December 31, 1994

Schedule Of Federal Findings

1. The Town Should Remit Interest Earned On Federal Funds

The Town of Concrete received \$51,615 from the Federal Emergency Management Agency (FEMA) Disaster Assistance Program through the Washington State Department of Community Development (DCD) for the repair of damage on Burpee Hill Road. The funding was received on May 27, 1993. The agreement with Skagit County Public Works required remitting payment upon receipt of the FEMA funds. The Town of Concrete used this funding to make partial payment to Skagit County Public Works on January 12, 1994, for the associated repair work. The remainder of the balance plus \$500.72 was paid to Skagit County Public Works on February 9, 1994.

By withholding payment to Skagit County, the Town of Concrete earned \$1,280 in interest on federal funds. This interest, less \$100 which may be kept, should be remitted to DCD. In addition, Skagit County lost the use of funds they had earned..

The "Common Rule" __.21 Payment (I) states:

Interest earned on advances. Except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act (31 U.S.C 6502 et seq.) and the Indian Self-Determination Act (23 U.S.C. 450), grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses.

The town did not make immediate payment to Skagit County Public Works at the direction of the town's former mayor. The overpayment of \$500.72 was caused by a mathematical error in calculating the balance owing. This overpayment has not been returned to the Town of Concrete by Skagit County Public Works.

We recommend the Town of Concrete remit \$1,180 in interest revenue to the Department of Community Development. We also recommend the town request reimbursement from Skagit County Public Works for the \$500.72 overpayment of the original bill. We further recommend future federally funded projects be appropriately monitored to ensure compliance with cash management requirements.